Weekly Brief February 04, 2026

The Pension Crisis Hiding in Plain Sight

I have been reading about the looming pension crisis my entire career, watching public officials—and business leaders—kick the can down the road.

The road doesn't go on forever.

The demographics of many developed economies have been moving unfavorably for decades. People live longer and have fewer children. At the same time, immigration restrictions are rising in many countries, further limiting the size of the workforce.

European countries already spend more than one-quarter of their public budgets on pensions. As societies continue to grow older, they will spend even more. Without reform, governments will need to borrow, raise taxes, or cut benefits—maybe all three.

Two reports from the BCG Henderson Institute look at the pension crisis facing governments and corporations from different angles.

In Pension Systems Are Cracking—Here's How to Fix Them, my colleagues examine pension reforms across three dimensions.

Sustainability. Maintaining a financially sound system over the foreseeable time horizon
Adequacy. Ensuring sufficient retirement income for the elderly
Equity. Creating a fair distribution of costs, benefits, and risks among individuals or groups

Many proposals address one or maybe two of these dimensions. The most successful policy options will strike a balance among all three.

For example, governments can gradually replace pay-as-you go funding of pension obligations with a system backed by investment assets. Rather than guaranteeing benefits, they can slowly start to guarantee contributions. This model is more sustainable and fairer to future generations of retirees but exposes participants to market risk. Governments can lower that risk by guaranteeing minimum payouts.

Establishing mechanisms that automatically adjust pension rules, such as linking the retirement age to expected lifespan, are sensible, though often politically charged.

These reforms will only be as effective as their implementation. Governments can improve the odds by drawing on the well-known change-management practices of the private sector.

Pension reform can work if people feel it's fair and can see how it affects them. Governments can be clear about their fiscal constraints and the tradeoffs they evaluated. They can explain the changes in plain terms using simple examples and trusted voices. Finally, they can back up the messaging with practical help, such as by offering basic financial education and simulation tools to individuals.

In Old Continent, New Growth, the authors argue that funded pensions systems would have the welcome effect of allowing European countries to direct capital toward productive investments that the continent so desperately needs.

They estimate that by 2040 total capital accumulation could lead to €2.5 trillion to €4.1 trillion in pension assets, with €0.7 trillion to €2 trillion likely allocated to EU-based investments, which can fund innovation and ultimately growth. This could cover up to about one-quarter of the new investment called for by the Draghi Report.

Of course, this approach only works if the system is run well. Successful public fund models—like those in New Zealand and Canada—have strong public oversight, the ability to hire top investment talent, and a clear mission.

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Businesses have a real stake in and can influence how pension systems evolve. As workers age, companies feel the effects directly through tighter labor markets, changes in productivity, and higher benefit costs. By rethinking work and work environments, companies can improve senior workers' well-being and engagement to extend the value of experienced talent.

Governments will need to make hard tradeoffs among sustainability, adequacy, and equity and work even harder at engaging with the public to show them the need for change.

If pension reform were easy, it would have already happened. Hard challenges demand the best of us.

Christoph Schweizer
Chief Executive Officer

Further Insights

[Pension Systems Are Cracking—Here's How to Fix Them]

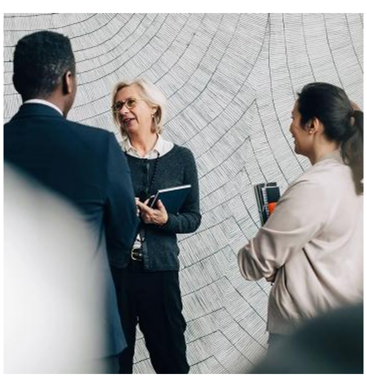
Aging populations are straining pension systems worldwide. Our analysis reveals how smarter design and savvy implementation can secure sustainability, equity, and adequacy for future generations.

What Needs to Change

Old Continent, New Growth: Pension Reform as an Economic Engine for Europe

Restructuring pensions to rely on funded schemes could ease fiscal burdens for European governments and for taxpayers.

The Case for Reform



Countries with Aging Populations Can Thrive. Here's How.

Countries around the world face a daunting demographic challenge in the form of aging populations. But demographic change is not destiny.

A Path to Prosperity